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I. Marketing ConditionsNew Philip Morris Brand - Cambridge Full Flavor

All packings of Cambridge continue to perform extremely well throughout the Section. To date, Winn-Dixie, Marsh, and J. C. Groub continue to be the only holdout accounts not accepting Cambridge Full Flavor. During this reporting period, Winn-Dixie did accept three packings of Cambridge Lights and Ultra Light 100's.

Direct accounts are extremely happy with our increased rebate program for Cambridge.

We continue to desperately need carton rack labels on all Cambridge Full Flavor packings. Lack of labels continues to result in out of stock situations and ordering problems.

Virginia Slims Ultra Lights

In general, these packings have been well received at all levels throughout the Section. To date, management accounts not yet accepting are Kroger (Indianapolis), Marsh Supermarkets, and Hooks Drugs.

At retail, distribution on the brand is excellent and sales appear to be good.

Benson & Hedges Lights Box

Considering our relatively weak Benson & Hedges and Box markets, we are very pleased with the results to date. While 13 management accounts have not yet accepted the packings we anticipate acceptance in most of these by the end of September.

At retail, pre-booking activities have met with fair success. Our primary distribution gaps will be in accounts selling less than 100 cartons per week. Additionally, rural assignments are experiencing some difficulty in gaining distribution of these packings.

Benson & Hedges Package Change

The new packages are showing up at retail. Sales Reps. have done an excellent job of moving the old product through the \$2.00 off coupons and "radio" displays.

Marlboro Lights Menthol - Test

All aspects of this test continue to go well. Sales Reps. have gained excellent distribution and movement of the product is good at retail.

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Philip Morris

Year-to-date volume figures for the month ending August, 1987 were up +6.9%. Marlboro (+5.3%), Virginia Slims (+2.3%) and Cambridge (+100%) continue to drive the Section's volume. Benson & Hedges and Merit sales continue to be off approximately -2%.

Industry

Kentucky and Indiana July unemployment rates were 8.8% and 6.2% respectively. Both figures are down approximately 1% from a year ago.

Nine Indiana state agencies will ban smoking in their offices by September 1, 1987:

Department of Civic Defense, State Office Building
Commission for Higher Education
Teachers Retirement Fund, State Office Building
Transportation Planning Office
Animal Health Board
Supreme and Appeal Courts Clerk
Department of Mental Health
Department of Labor
All Public Buildings - Defined as Universities,
Schools, Hospitals, and areas rented or owned
by local and state government.

The Southern Governors Association recently passed a resolution to oppose federal excise tax increases.

II. Competitive ActivityAmerican

. The new Pall Mall Red Filter King size and 100's were shipped to direct accounts in Section 42 on August 10, 1987. The list price was \$37.15 per thousand for Kings and \$38.65 per thousand for 100's. The introductory allowance was ten percent off list price from August 10, through August 28, on all purchases. They are offering 3½% - 30 day terms. All cartons shipped during the initial introductory period will have a \$2.00 instant store coupon attached and buy one get one free promotion.

. They continue to pursue fixture space in convenient outlets doing over 300 cartons per week.

. They continue to place Malibu plastic floor bins for cartons and packs, paying \$35.00 per month. It is rumored that if the account keeps the display up for one full quarter there is a \$15.00 per month bonus. This is only in high volume accounts.

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Brown & Williamson

. Capri has been introduced to trading areas 2, 6, 10, 11, 30, 33 and 65. The first ship date was August 4, 1987. The introductory allowance was \$35.00 off per case on allocated product. The terms were 3 1/2%, 30 days.

. Retail offers include buy one get one free, targeted sampling, free standing inserts with pack and carton coupons, direct mail couponing, and pack and carton consumer incentives.

. Richland, Kool and Kool Lights buy one get one free displays noted throughout Section 42.

. They will promote Kool Milds heavily for the remainder of 1987. Their new ad theme is "Kool Mild Today".

. They are rumored to be planning a redeployment by the end of 1987; going to eight Sales Rep. Divisions.

Liggett & Myers

. L & M 30's floor display (30 carton) is presently being placed with a \$10.00 monthly renewable payment. These accounts also qualify to receive an additional \$5.00 per month payment for keeping up a large window poster.

. Eve 120's offering a free lighter with a two pack purchase, 60 deal floor display and 10 deal counter display. Sales have been very slow for the past two months of this promotion.

. The Sales Rep. in Lafayette has hired two part timers to work 10 hours per week in the Lafayette and Kokomo areas. They are only responsible for labeling carton and pack racks and stock rotation.

Lorillard

. New True silver pack has been offering a two for one display and lighter display for the past two months. True has not shown any improvement since the packing change. Couponing on behalf of Kent offering \$2.00 off. In addition, the consumers can fill out a mail-in offer for a booklet containing three \$2.00 off coupons. Two dollar couponing continues on behalf of all packings, except for Max and Old Gold.

. Noted True buy one get one free pack displays on older packing in rural areas. Sales continue to be slow.

. In Terre Haute, IN, Lorillard is test marketing Harley Davidson. The brand is only being introduced in one style

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(King Size Soft Pack) and is 14 mg. of tar and 1.1 mg. of nicotine. The brand is supported with billboards, metal signs/jumbo packs, posters, banners and two for one displays. The retailer is paid for placing both temporary and permanent POS. Movement to date appears extremely slow and many consumers who have tried the brand state that it is extremely hard to "draw".

. Newport continues to be promoted with buy one get one free pack displays and \$2.00 on-carton coupons attached to shelf stock. Sales on Newport continue to show slight increases in ethnic accounts and among young consumers, affecting mainly Kool sales.

. Two dollar off coupons with \$6.00 mail-in coupon offer reported previously continues on True, Newport, Kent and Max. Coupons are placed on shelf stock.

R. J. Reynolds

. Continuing to work Winston Lights Box with buy one get one free display and also buy two packs get free can cooler. Also continuing promotions on entire family via \$2.00 off coupons. Utilizing 90-120 carton floor displays for this promotion. In the Paducah area, 2 pack purchases of Salem, Camel, and Vantage contain a 75¢ off coupon. Vantage is also being featured with a buy two pack - get two free mini lighters.

. At Harvest Markets (7 stores) in Anderson, IN, they have placed a 3 foot flex rack exclusively for their brands. PM supplies the primary carton fixtures. All product is being couponed with \$2.00 off coupons. Reported payment for this free standing fixture is \$80.00 per month per store. This may be a similar program to the ones reported in Bowling Green and Evansville on last months report -- a 13 week program paying up to \$120 per month.

. Company continuing to work overhead pack merchandisers in all areas. Reports of payments to retailers vary from \$50 in Fort Wayne, IN area to \$100 in the Louisville area, and \$150 in the Indianapolis area. Also, RJR is offering to mount the units from the ceiling at no charge in addition to the payment.

. Company also continuing emphasis on removing PM carton fixtures. It is reported they will no longer pay for their fixtures in conjunction with PM fixtures in the Paducah, KY area. It is rumored they will match PM payments, but nothing has been put in writing.

. Division Managers in Evansville, IN and Louisville, KY report RJR is replacing old carton fixtures in low volume accounts (less than 200 cartons per week) for fear of losing

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them to PM fixtures. In addition, Indianapolis DM reports they are offering new self-service carton fixtures and overhead pack merchandisers in less than 200 carton per week outlets with payments up to \$126 per month.

. Magna will be "reintroduced" in the Indianapolis market at full price beginning October 1, 1987. The brand will be supported at retail via \$2.50 off carton coupons and buy one get one free displays. Indianapolis is the only market within the Section where Magna will be introduced.

Generics

. RJR - Continuing to coupon with 50¢ and \$1.00 off coupons. DM Bruce Dye reports the 50¢ coupon was just a test and that the company will revert to \$1.00 off coupons.

. B & W - Promoting GPC's with \$1.00 coupons, but reported that couponing is not as heavy. Falcon also being couponed with \$1.00 off, but sales remain slow. Retailers are complaining because rebates for supplemental orders are being ignored.

. L & M - Limited \$1.00 off coupons reported. Also, 10¢ off per package promotions and some buy one get one free promotions have been reported. "Total" sales are very slow. DM Joe Potterack reports buy one get one free promotion at Western Importing Co. in Indianapolis. Sales Rep. authorized the promotion to help alleviate overstock.

. Schroeder Wholesale (Evansville, IN) received a generic priced brand named Class "A" - two cases Kings, three cases 100's, one case each Menthol Kings, Menthol 100's and Ultra Light 100's. No sell-in sheets or other product information was available at time of receipt. Distributor was unaware the product was ordered.

III. Trade Classes

Wholesale

PM volume grew by 6.9% year-to-date through August. Volume growth is being driven by strong trends on Marlboro in all areas except the Louisville Sub Market (-3.4%). Cambridge growth continues to be strong across the Section.

Sales Trends By Market

4A0 Fort Wayne/South Bend	+1.1
4B0 Indianapolis	+8.2
4C0 Louisville/Evansville	+5.9

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Sub Markets

Louisville	-6.1
Evansville	+15.1
Lexington	+6.5

Distributors

Smith Harris has lowered their price on GPC and Quality Generics placing them below Cambridge and Doral. Factory rebates were cited as the reason for the reduction. Their retailers have lowered retail prices. We are combating with our \$1.00 off coupons.

Randy Collier of Axton helped us land Cambridge distribution at Winn-Dixie.

Smaller distributors across the Section have commented on the flood of new brands creating a strain on their systems.

Wholesale Grocers

Nothing to report.

Vendors

Anderson Supply has accepted the Maxi Credit program (35 machines).

Military

Nothing to report.

Retail Supermarkets

Kroger (Louisville) will hold their annual Managers Food Show in Nashville, TN on October 1, 2 and 3.

Marsh Supermarkets is considering moving its headquarters to Indianapolis.

Marsh Supermarkets is opening its first franchised fast food outlet called Pasta-Quick in Bloomington, IN late this month. This is viewed by Marsh as another way to compete for the fast food dollar, both from supermarket delis and McDonald type operations.

Convenient/Gas

The Kentucky/Indiana 7-11 franchise has been purchased by Garb-Ko of Saginaw, Michigan. They plan to add 150 units to their operation in the next five to ten years, through acquisition and new stores.

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Handy Andy Markets of Marion, IN is selling their dairy operation.

Buelers in Evansville, IN will place four System 2000 racks.

Minit Mart in Bowling Green, KY will test a four foot System 2000 for their generics.

The 4M Service Centers in Muncie, IN are being sold as independents.

Liquor

Liquor Outlet in Louisville, KY placed our System 2000 rack in one location.

United Package stores in Indianapolis are going to use Cambridge as their exclusive generic brand.

The trend in the industry towards larger stores is forcing smaller units out of business at an increasing rate.

Mass Merchandisers

K-Mart has removed all generics in preparation for the 9/27 arrival of the new "Austin" brand from RJR.

Target discontinued all generics on August 1, in Louisville, KY.

Hecks closed their Richmond, IN store.

Return Goods

Section 42 Return Goods Processors continue to do an excellent job of monitoring and salvaging PM product at return goods depots.

IV. Key Accounts

SSM R. Kohl

None during this reporting period.

SAM K. McCoy

Emro Marketing	M. Martin - Merchandiser	09/01/87
Indianapolis, IN	K. Storms - Admin. Assist.	

Finalized Emro Marketing Management meeting plans. On September 16, we hosted Emro's Management Team to a plant tour and a golf outing. I finalized all arrangements for bus transportation, tours, lunch and golf. PM was

represented by Bob Kohl, Pete Kostakos, Tom Lowder, Andy Mikelson (National Accounts) and Larry Zinski.

Kroger Louisville, KY	M. Phelps - Assist. Drug/ GM Merchandiser	09/02/87
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Mike agreed to place a second System 2000 fixture in their Middlesboro, KY store. Order to be placed next week for a 5x5x5 with security shields.

Conna Corp. K. Chudgar - K. C. Corp. 09/10/87
Louisville, KY Consultant

New low profile System 2000 to be placed in CFM on Clarks Lane on September 14. All new store managers will tour this store on September 15. K. C. Corp. is designing a new modular overhead for Conna. Conna has asked me to assist (I feel certain we will gain POS spot on this item).

Winn Dixie J. Russell - Buyer 09/11/87
Louisville, KY

Discussed Cambridge distribution gaps. Joe called on September 9, and informed me that they had changed their mind about Cambridge and would order this week. He informed me that the new Vice President, Bill Calkins, did not like Doral racks and they will be removed.

SAM D. Coode

Taylor Drug C. Mazza - Buyer 08/29/87
Louisville, KY

Follow-up visit regarding 5 foot low profile for Plan A which was set up in Taylor's warehouse. Cindy likes the fixture and will meet with the Merchandiser next week to discuss and show him the fixture.

Hook Drugs Indianapolis, IN	J. Jolivette - Buyer	09/01/87
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Jon was very negative towards the number of new items being introduced, citing a lack of concern for retailers by tobacco companies. He asked why we couldn't wait until 1988 to introduce B & H Light Box instead of rushing to beat the holiday season. I told him we would help all we could to ease the flow of product at retail. Another issue was slotting, their policy is that we must discontinue one of our packs for a new pack. This was addressed with a Share of Market report showing our strength vs. competitors.

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Marsh Supermarkets Al Baker - Buyer 09/02/87
Yorktown, IN
Al will evaluate movement of new brands and make a decision
next week. Placing new RJR fixture in one store on October
1, 1987.

V. Merchandising Programs

Carton Merchandising Programs

Plan A

All levels continue to implement the new Plan A. To date, approximately 50% of the accounts have been resigned.

Eligible High Volume Plan A Accounts (300+ CPW)

Independents

26 # of unsigned accounts (decrease of 1 since last report)

Chains

<u>Account Name</u>	<u>City/State</u>	<u># Stores</u>	<u>Status</u>
J. C. Groub	Seymour, IN	24	While AM Alice Zeller has established good rapport at this account, we can see no changes in the present carton merchandising plan in the near future.

Plan A-1

The Marlboro Sports Bag A-1 received excellent comments from both accounts and consumers.

AV/AG

All levels are resigning existing contracted accounts to the AV contract prior to September 30. We feel that a greater payout would have been achieved if the old plan could have been extended through 12/31/87 to coincide with the termination date on the old Plan A.

Pack/Counter Merchandising Programs

Plan BV

We recommend larger units in order to gain greater representation for the entire Cambridge and Player Lights families.

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Plan R

Currently, 160 accounts are signed to this agreement which is an increase of 7 since last report. We continue to pursue new opportunities and follow-up on pending presentations.

Plan D

Section 42 vending placements year-to-date are 2,993. Total placements by brand year-to-date are as follows: Marlboro 1,709; Merit 838; B & H 168; Virginia Slims 248; and all others 30.

DataVend

As of September, Section 42 has 34 vendors with 2,794 machines using our DataVend reporting system.

Ride-Withs

No ride-withs have been conducted as of September.

RDA

No RDA's have been conducted as of September.

A.C.M.R.

We have a total of 23 vendors using our A.C.M.R. conversion kits with a total of 2,192 machines.

Philip Morris FixturesCarton Fixtures

Currently, 620 accounts within Section 42 merchandise cartons on a Philip Morris fixture. This is an increase of 23 since last report.

Package Fixtures

Currently, 1,893 accounts merchandise packs on a Philip Morris fixture. Despite increased competitive pressure, August Retail Account Summary shows an increase of 10 accounts using our overheads. Reports that RJR will provide ceiling installation may hamper our efforts in obtaining our fixture in some locations.

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VI. Section Activities

Retail Activity And Accomplishments

While cycling results during August were low, Sales Reps. were able to obtain a daily call rate of 9.1 (maximum call rate 12.5). This call rate is considered excellent considering new brand introductions on Cambridge Full Flavor and Virginia Slims Ultra as well as numerous carton and package rack installations. During the remainder of the year, obviously, Sales Reps. will be extremely involved in new brand introductions, rack installations and signings of new merchandising contracts.

Management Activity And Accomplishments

.Area Manager Alice Zeller secured one test store in Drug Emporium (7 stores) in Louisville, KY, for our EMC sign.

.Area Manager Mike King has convinced JR Foods (55 stores) of Bowling Green, KY to convert six stores presently on C/I or RJR carton fixturing to our System 2000 fixtures.

.Area Manager Marc Schuler has placed one System 2000 fixture in Clark Oil as a test. Clark, of Indianapolis, has a total of 90 stores.

.Area Manager Tom Engelhardt placed one System 2000 in Stanley J. Clark as a test. Stanley J. Clark has a total of 12 stores.

.Area Manager Mike Tompkins secured placement of System 2000 in three additional Buslers (11 stores) bringing the total stores with PM fixtures to four. In addition, he has secured placement of three overheads in Buslers accounts.

.Area Manager Mike Tompkins secured authorization for one test store for System 2000 in Davis Food Giant (5 stores) in Paducah.

.Area Manager Mike Tompkins has obtained authorization for Marlboro 2 pack promotion at the Pantry (127 stores). Banners have been ordered.

.Area Manager Bob Hurban has secured EMC's in two of Al's Supermarkets, Michigan City, IN and in six Key's Markets, Hammond, IN.

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Special ProgramsVirginia Slims Ultra Light 2 For 1

As usual, this promotion has met with good success. Displays were reported selling within two to three days of placement.

B & H Command Performance - Jazz

Arrangements have been made for PM sales personnel to participate in Jazz concerts being held in Indianapolis and Merrillville, IN during early October. Details on the program will be reported next month.

Sampling

Intercept coupons continue to gain consumer trial. DM's report no problems with coupons arriving late.

All Virginia Slims Samplers were on board as of August 31, 1987. Materials for Sampler in Division 10 arrived late but DM utilized some materials from Division 07 in the interim.

Permanent POS

Sales Reps. report that store hour decals crack or separate from the door within a short time (sometimes within one day).

Through August 31, Area Managers have ordered 49 EMC units for placement.

Special Section Projects

No Special Section Projects have been scheduled for September or October.

VII. Sales ServicesSystems

Please refer to Miscellaneous Comments, Roman numeral XI.

Fleet Administration

Nothing new to report.

Materials Distribution

Continue to desperately need Cambridge Full Flavor carton rack labels.

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Office Administration

Nothing to report.

VIII. Sales Development

Nothing to report.

IX. Media Developments

Nothing to report.

X. Associations And Conventions

On September 14 - 18, SAM Kevin McCoy, SAM Dave Coode, and MPA Kern Hunter attended the small group SAM Seminar in Chicago, IL. Participants felt the session was worthwhile and will make PIP proposals in key accounts as early as possible.

On September 14 and 15, I attended the Tobacco Institute's College of Knowledge in Washington, D.C. The session was certainly very informative and interesting. The instructors and moderators did an excellent job of outlining and presenting the critical issues our industry faces.

I do, however, have reservations concerning the select individuals we rely on to testify before the congress on such issues as the "Ad Ban" and Excise Tax increase proposal. Although the panel of witnesses clearly opposed an Ad Ban and/or tax increase in principal, several individuals were quick in their decision to come down on the side of the proponents concerning the smoking and health issue. This was certainly disheartening, as I wish all witnesses testifying before congress were more clearly on our side.

The session increased my overall knowledge of the issues and was certainly very interesting. I appreciate being selected and having the opportunity to attend.

XI. Miscellaneous CommentsRedeployment Test (Full Margin/Price Value)

The first timing study was conducted the week of September 14, 1987. Call rate by position was as follows:

Full Margin	11.5
Price Value	10.5
Merchandising Reps.	6.8

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Based on these results, it is apparent that the Merchandising Rep. can substantially reduce Full Margin and Price Value Rep. merchandising time.

While we feel the test has been successful, we recommend consideration of the following points prior to going national:

- 1) Price Value merchandising plans AV, BV and BG (Players), must be signed and paid for by the Price Value Rep. This, obviously, would require a change in our current philosophy of incorporating AV into Plan A. Furthermore, a separate draft payment system for each Price Value Rep. would be required.
- 2) The current SPACE system must be altered to service each type of Rep. (Full Margin, Price Value & Merchandising). At present, too many side systems have been developed as a result of the SPACE systems lack of capability.
- 3) Communication continues to be the key to success. We need an efficient means to singularly expedite work order communications between the Full Margin Rep., Price Value Rep., Division Merchandising Manager and ultimately, Merchandising Rep. Additionally, we need to be prepared to effectively communicate results and activities between the Price Value and Full Margin Representatives.
- 4) The two sales forces will definitely lend itself to competition between both groups. Therefore, it is critical that the SSS position have dual Division (Price Value/Full Margin) forces reporting to them.
- 5) Merchandising Representative position will require significant training activities. This position requires far greater expertise than the RMA position.
- 6) Depending on time constraints, two weeks should be built into re-deployment of the Section.

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Overall, I feel the program is excellent for our Section, considering our price value's high SDI. After evaluating the test in the field this period, I came away feeling the program was very good for business. However, I feel the above points must be considered for our national implementation to have a payout.

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I. MARKETING CONDITIONS

New Philip Morris Brands**Virginia Slims Ultra Lights**

Consumer, retailer and wholesaler response has been excellent to our new packings. This can be attributed to the line extension of a popular and attractive parent brand and our sequential program with its allowance payments. There were some instances of accounts having distribution and already selling product prior to our initial retail contact. Our two for one program is being accepted well by retail and consumer trade. The limitation of these displays during the introductory period has allowed us to concentrate more on live product sell-in to retail accounts that traditionally want to see if promotional product moves before buying backup cartons. Display sizes and allocations were sufficient except that the fifteen 40 unit black ethnic displays didn't arrive. The \$2.00 coupon printed inside the promotional sleeve was not readily visible to the consumer. Suggest that the coupon be put inside the free pack cellophane on future promotions since people tend to throw away the sleeve right away. All POS was well received by retail, providing a high degree of visibility and consumer awareness. Sliding gratis continues to be a good method of inventory building in larger accounts. Pre-booking has enhanced the current sell-in and has allowed our sales force to concentrate on displaying product and converting smokers during the introduction period.

Benson & Hedges Lights Box

Chain level and wholesale acceptance has been good, but based on the limited Benson & Hedges parent box sales, the retail trade is not excited about another new box packing. Pre-booking is receiving some resistance based on this problem. We will continue to pursue the opportunities and hope that the retail promotions will spur consumer acceptance and trial.

Philip Morris

On-carton couponing continues to provide Philip Morris with an excellent means of increasing sales and distribution of our Cambridge and Players Lights packings, however the coupon delivery problems with Cambridge are showing their effect at retail in both stock levels and sales.

Players black packings continue to collect dust at retail. This brand needs support or discontinuance as it creates display and distribution problems at retail.

The new Benson & Hedges packings are arriving at retail with very little old product left in stores. It appears that consumers have been well informed of the package change and aren't suspicious of a taste change as has been common in the past.

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I. MARKETING CONDITIONS (cont'd)

Industry

DuPage County is considering a smoking ban in all county buildings and vehicles. Pending approval by the board, the measure could take effect October 1, 1987.

A Midwest Industrial Management Association survey of 326 companies shows 30% have a written smoking policy and another 30% are considering one.

The effects of the mid-year price increase appear to be leveling off and new introductions, extensions and package changes have helped stimulate sales.

The city of Wheaton has passed an ordinance prohibiting curb signs and restricted the square footage of signage at each location to allow just enough space for typical logo sign and gas prices.

II. COMPETITIVE ACTIVITY

American

Primary emphasis behind Pall Mall Filter Kings and 100's. Cartons are couponed at \$2.00 off and \$1.00 off carton coupons are attached to packs and may be used to receive total of \$3.00 off per carton. Also offering 20¢ off per pack in buy one get one free displays. When four cartons are ordered (two Kings and two 100's) retailer receives \$4.00 in cash from Sales Rep. Good degree of distribution, but sales are very slow.

Secondary emphasis behind Malibu with pack promotion holding four cartons with 30¢ off per pack stickers. Poor consumer and retail response.

Featuring Lucky Strike in buy two get one free displays. Offering newspaper \$1.00 off carton coupon.

It has been reported that American will be discontinuing Tareyton Light 100's.

Brown & Williamson

Main emphasis is on securing availability and visibility for Capri. Brand is being promoted at retail with a buy one get one free display, a two-sided floor bin with \$2.00 off on-carton coupon, a permanent plastic counter display solely for Capri and is also being placed on the top of all contracted counter displays. Capri is supported with shelf talkers and counter cards. Distribution and consumer trial are good. To date, Capri is not being worked in central Illinois markets.

Falcon is being featured in buy one get one free, 20 unit displays with \$2.00 payment to retailer. In the Springfield marketplace, the brand has a strong presence. Are utilizing \$1.00 off carton coupons and achieving a good degree of visibility by placement of large posters for which the retailer is paid \$5.00 for a two week period. Sales of the product are very slow.

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II. COMPETITIVE ACTIVITY (cont'd)

Featuring Kool in 60 and 120 carton floor displays with \$2.00 off coupons attached to cartons. Excellent movement of product from this display.

Liggett & Myers

Promoting Eve in 30 carton floor bin with \$2.00 off on-carton coupons attached. Retailers receive 20¢ off per carton for the order. Retail and consumer responses were minimal. Also, receive free Eve lighter with two pack purchase.

Featuring L&M Kings or 100's in five unit displays with offer of free lighter with two pack purchase. Payment is \$2.00. Movement is slow.

Promoting Total with \$2.00 off carton coupons in Springfield area. Brand is \$1.00 less than all other price value brands, including Cambridge. When accompanied by coupon, retailers report Total is outselling all other value priced brands.

Lighters are being attached to all single packs of Quality Seal. No display and no payment. Movement is very poor.

Lorillard

Continue to place emphasis behind the new packaging of True with four or eight carton pack displays with a two pack purchase receive a free blue or green True lighter. All packings have \$1.00 off carton coupons attached. Payment for the eight carton display is \$3.00. Poor retail and consumer response.

Utilizing sample 10's of Newport along with a coupon for a free pack and 45 carton floor display (all Packings) with \$2.00 off coupons. Moderate product movement. Reps are working to obtain more rows for Newport family while most other packings are being placed on shelf dividers. Are supporting brand with mini metal signs in the hispanic marketplace.

Are placing \$2.00 off on-carton coupons on Kent, Kent III, Golden Lights, Newport, True and Old Gold.

R. J. Reynolds

Are pre-booking Vantage, Winston, Salem and Camel. Various reports from retailers indicate they can order 120 up to 240 cartons and receive 20¢ to 50¢ per carton allowance. Coupons for \$2.00 off are attached to cartons in floor displays.

Primary emphasis behind Winston Light Box with several promotions. Brand featured in buy one get one free displays and eight carton pack promotion of buy two packs and receive a free Bears can cooler or Chicago Bears football lighter (three cartons used for the lighter offer and the remaining five cartons are used to place a 25¢ off a pack offer which is paid up front to the retailer.) The blister card with lighter includes a free mail-in offer for a can cooler plus a \$2.00 off carton coupon that can be used toward the next carton purchase of Winston. Very good product movement from these displays.

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II. COMPETITIVE ACTIVITY (cont'd)

Major penetration has been the hispanic market where a high degree of hispanic visibility has been achieved for the promotion with large posters and small cards. The hispanic baseball league, "Martin Dihigo", is being sponsored by Winston.

Advertising for the new packaging on Vantage Ultra Lights is appearing in various magazines. Have many coupons in Sunday supplements on Vantage for \$1.50 and \$2.00 off carton purchases. Call 1-800-Vantage for a free taste test kit.

Cartons of new Salem packaging contain a brochure informing smokers of the design change along with a survey asking Salem smokers their opinion of the new package design.

Within the major part of the Springfield marketplace, Doral continues to be couponed at \$1.00 off a carton. In the Chicagoland marketplace, Doral is couponed at 50¢ off a carton.

Mail-in opinion questionnaire is inside all cartons of Century.

III. TRADE CLASSES

Wholesalers/Distributors

Val Poterek is hiring part-time personnel to assemble two for one promotions for Capri.

Cosgrove Distributors, Spring Valley, no longer is buying direct effective July 31. Currently buying all product from **Cullen** in Streator.

Clanin Bros., Toluca - Account is only ordering Marlboro packings direct from us. All other packings being purchased from **Springer-Burklund** in Peoria.

The tax issue/PM Magazine brochure inserted in cartons of Parliament have created stamping problems for our accounts since the cartons will not seal properly when stamped. Distributors stated that they would like advance notice in the future so that adjustments can be made to minimize problems.

Supermarkets

Omni - EMC installed and are now awaiting logo placement from Everbrite. This should be installed during the week of September 28.

Cee Bee's - All four stores received EMC and logos. Are opening a new store in Batavia in late 1988.

Cub Foods - Decision pending on EMC presentations made to corporate stores.

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III. TRADE CLASSES (cont'd)

Ben Schwartz Foods, Peoria have signed Plan A agreement in two of their stores effective August 1987. A third store will be added after remodeling is completed in October. This is our first Plan A agreement in some time with this chain.

Convenience Stores

Convenient Food Mart of Illinois has taken over **CFM's** Central Division. Technically, the Peoria and Chicago operations are one, however they will operate both regions separately. Head personnel will shuttle between both operations. Reports indicate our package fixtures are in jeopardy since Dave Berkshire, General Manager, has worked with RJR in Peoria and informed us they will receive placements in Chicago as well.

Convenience/Gas

White Hen Pantry - Corporate office will now make decisions for Wisconsin stores which were previously controlled separately. All counter displays and fixture decisions are on hold until after their trade show in September. Buyer said he likes RJR woodgrain fixtures because brand logos were more subtle than ours.

Minuteman Gas, Watseka - Currently being remodeled. Philip Morris will place carton and overhead fixtures in October.

Smith Oil - Purchased **Amoco Food Shop** in Manteno and nearing completion of new outlet in Bourbonnais for a total of seven locations. B-4's will be placed in all locations in the near future.

Gas Stations

Clark Oil, Bloomington, has requested Philip Morris carton fixtures in five stations to convert from 6' Compact/Impact sections. Presentations are underway to fill the chain's request. Reggie Ragland, District Supervisor, has expressed interest in carrying Cambridge as their only generic product. Area Manager will advise of final decision.

Independent gas stations have, on many occasions, requested pump toppers and window banners for cigarette advertising. As gas stations become more involved in merchandising cigarettes, materials of this type are needed.

Drug Stores

Oscor Drug has not made a definite decision on carton fixtures. They are testing RJR rack in conjunction with end aisle and in-line configurations. John Drarak, Director of Merchandising, is willing to meet with our design department to work on a suitable unit and color. They are also interested in front end baskets for package promotions.

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III. TRADE CLASSES (cont'd)

Cavett Drug is placing a spring load package floor display in all stores.

Mass Merchandisers

A local **Venture** store has discontinued the sale of cigarettes. It is unknown at this time if this is a test or trend for the future.

K Mart continues to convert end aisle fixtures to new flex rack in front of stores.

Liquor Stores

Foremost Liquors, Zion, 900 cartons per week, will be receiving 20' of System 2000 racks. Presently we have a 51 row contract.

Other Retail Outlets

American Warehouse Clubs opened stores during the week of September 1 in Lombard and Arlington Heights. These locations were formerly owned by **Warehouse Clubs**.

Vendors

Blend Vending has been purchased by **L&B Vending** and will move its operations to Burr Ridge in October.

Complete Vending - We gained 105 new placements during 2nd quarter.

H & H Vending, Moline, sold cigarette operations to **Superior Vending** in Iowa, effective April 1, 1987.

Returned Goods

RGP Harold Hanson resigned effective July 31, 1987. Currently looking to hire another RGP at **Core Mark**.

Large amounts of Players black pack are being found in returned goods process.

IV. SSM KEY ACCOUNT CONTACTS

SAM Alan Sher

August 31, 1987 - Walgreens - Contacted Buyer Dale Solner to obtain authorization letters for Virginia Slims Ultra Lights and Benson & Hedges Ultra Lights Box and discussed self-service System 2000.

The authorization letter for both brands was obtained, but there appears to be a problem with the System 2000 acceptance. Dale wants a 6' section and Senior

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IV. SSM KEY ACCOUNT CONTACTS (cont'd)

V.P. Vern Brunner wants a 3' section and is concerned with what to do with products displaced by the fixtures. Dale has requested a one month period to resolve the problem.

September 3, 1987 - **Southland Great Lakes** - Contacted Buyer Nancy Smith and Marketing Manager Rick Lombard to obtain commitments for banner signage and present new counter balance signage with personalization. Also presented Cambridge/FVB program details.

Banner signs are being reviewed by zone managers and counter balance signage will have to go through the same process for approval. Nancy is in the process of setting up a retail price key for the Cambridge/FVB program and should have the program recommendations ready in two weeks.

September 10, 1987 - **Amoco Oil** - Accompanied by ADRS A.B. Campbell, met with Merchandising Manager Jack Aldworth and Food Shoppe Concept Manager to discuss a national outdoor signage program and other needs that might be addressed by Philip Morris.

Amoco is supplying a sketch of what type of pole sign with pack prices they would like. Pictures of present placements will be presented for comparison purposes. Amoco would also like us to supply incentive items for each store grand opening.

SAM Rick Moline

August 31, 1987 - **Eby-Brown Aurora** - Met with V.P. Merchandising Brett Fender to present Benson & Hedges Lights Box, meet warehouse people and review return goods process. The account accepted the full allocation of new brand. Met appropriate personnel in warehouse and Return Goods Processor.

August 31, 1987 - **Eby-Brown Elgin** - Initial contact with Sales Manager Arnie Dauksavage. Also met personnel in sales, warehouse and operations departments.

September 2, 1987 - **White Hen Pantry** - Met with Buyer Bernell Kick to introduce Virginia Slims Ultra Lights and Benson & Hedges Lights Box packings, review status on PM package fixtures and propose PM counter display.

All packings were accepted but they rejected the PM package fixtures as too colorful in respect to advertising. Also rejected counter display because they don't meet the corporate image. Follow up will be done with Director of Merchandising since it appears that the buyer has conditioned negative attitude toward our concepts.

September 3, 1987 - **Eagle Foods** - Met with Buyer Earline Hearme to introduce Benson & Hedges Lights Box and review Customer Analysis. Acceptance decision should be forthcoming from a buying committee on October 1. Follow-up proposals will be made on behalf of Cambridge since stores are located in high generic market but they are only carrying house brand.

September 11, 1987 - **Emro West** - Contacted Buyer Fred Schermer to propose floor display for stores in Marlboro Menthol test market, gain acceptance on

IV. SSM KEY ACCOUNT CONTACTS (cont'd)

Benson & Hedges Lights Box with automatic distribution and displays and place Virginia Slims Ultra Lights displays. All objectives were accomplished.

September 11, 1987 - ~~Eby-Brown~~ Elgin - Contacted Warehouse Supervisor Cindy Smith to complete paperwork for return goods.

V. MERCHANDISING PROGRAMS

Carton Merchandising**Plan A**

Our most recent reports show us averaging 89.6 rows in contracted accounts selling 500+ cartons per week and 64.3 rows in accounts selling 300-499 cartons per week. Small fixtures average 35.5 rows. Standard fixtures average 40.0 and extended average 69.5 rows.

Eligible Plan A status:

Chain: None

Independent: Category I - 6 Category II - 14

Even though it is early in the Space Trek program, we are closing row gaps through increased concentration on higher volume accounts. We are confident that strong results will be secured as Sales Reps and Managers are motivated by the contest. Implementation of the new Plan A and presentations for larger departments have been ongoing.

Clark Oil Rockford is very interested in placing the System 2000 (4' module) in some of their stores. The module has been built and we are waiting for Clark to set up a day to come out and look at the rack in their store on 59th and Sterns.

Negotiations are still in progress on the self-service carton program for **Walgreens**. Vern Brunner, Senior V.P. of Marketing, has agreed to a new store format of 3' of cartons, merchandised on the back wall of their stores. This would eliminate the cartons being kept under the counter, which a majority of the stores currently do. We are working on a 6' self-service C/I department. The #1 problem for Walgreens is where to put the displaced products that are currently on the back wall.

AV/AG Fixtures

To date we have placed 431 AG fixtures and 306 AV fixtures. Current penetration of self-service stores is 25%. **Illico** accepted a 16 row contract, a gain of four rows on each of 24 stores.

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V. MERCHANDISING PROGRAMS (cont'd)

Plan A-1

Marlboro Sports Bag was an excellent concept that should be run each year. The bag was of high quality and well received by consumer and retailer. Continue to receive complaints of size of header and base of units. This increases longevity of the unit.

Compact/Impact

Nothing new to report.

Plan AM

Currently identifying opportunities and signing contracts. This will be a valuable program in building Marlboro inventories and visibility in lower volume accounts.

Pack/Counter Merchandising ProgramPlan B

	<u>August</u>	<u>July</u>	<u>Change</u>
B-2	74	74	0
B-3	736	734	+ 2
B-4	373	371	+ 2
M-3	668	655	+13
M-4	688	686	+ 2
Total	2,539	2,520	+19
Add-On Modules	1,171	1,193	-22
Primary Position	1,000	992	+ 8

Total B/M penetration has increased to 31.3%.

7-Eleven is working on replacing the B-4 racks (57 stores) with the M-4 racks. Buyer N. Smith is sending out letters to all stores asking them to change. She is also working to reduce the non-compliance problems with the counter racks.

Plan BV

To date we have placed a total of 1,660 displays, an increase of 48 units. Penetration is currently 20.5%, an increase of .6 over the previous month. The top tray of this unit is warping. This is occurring with displays on location as well as some being removed from new boxes.

7-Eleven has accepted the BV non self-service rack for Cambridge and Famous Value Brands. Will set up three separate prices for all cigarettes and will send out the program within two weeks.

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V. MERCHANDISING PROGRAMS (cont'd)

Plan BG

To date we have placed 765 units, down 6 from last report. Currently penetrating 9.4% of our accounts. Unit life remains short and placements are usually replacements of previous units that have fallen off.

Plan R - Nothing new to report.

Two Pack With Incentive - Nothing new to report.

Vending Program

In our Section, 192 vendors operating 17,331 machines are participating in our Plan D program. Of these vendors, 55 are on the DataVend system with 8,854 machines, 51.1%.

Through the month of August, we have secured 1,020 placements (387 Benson & Hedges, 327 Marlboro, 100 Merit, 8 Parliament and 198 Virginia Slims.) Ride-withs accounted for 724 placements and 296 were vendor placed.

Ride-Withs

AM B.J. Marshall is conducting a ride-with with J&R Amusements to update DataVend.

Philip Morris Fixtures**Carton Fixtures**

We currently have 308 accounts with Philip Morris carton units. This is an increase of 6 accounts over the last report.

Omni - New System 2000, 18' cigarettes, 4' tobacco.

Famous Liquor - Will receive new Low Profile System 2000.

Minuteman Gas - Two 4' CMS II.

Some retailers feel RJR still has the edge on us because their POS graphics light up. Suggest that this capability be explored if account wants this feature.

Package Fixtures

Overhead Pack Merchandisers - 1,480, an increase of 33 units since last report.

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V. MERCHANDISING PROGRAMS (cont'd)

New chain placements:

Redco Oil, Springfield - 6' Maxi to replace PM 6'
Redco Oil, Kewanee - LP 6' to replace RJR wall mount
Stewart Oil, Urbana - 6' Maxi to replace RJR wall mount
Stewart Oil, Lake of Woods - new 8' Maxi
Stewart Oil, Kewanee - 8' Maxi replaced PM 8'
Minuteman, Manhattan - LP 8' and 4' replaced PM 8'
Horizon Foods, Chicago - 8' replaced RJR 4'
Horizon Foods, Chicago - 8' Maxi replaced RJR 8'

Omni has accepted the Low Profile Spinner in addition to existing pylon.

Wall Modules

Harper Oil, Clear Lake - Three 24" modules
Harper Oil, Urbana - Two 24" modules
Green Oil, Auburn - Three 24" modules

VI. SECTION ACTIVITIES

Retail Activity

Our retail placements of set/sells, temporary POS, semipermanent POS and permanent POS continues to be above index. Promotional displays exceeded index by 8.7. We continue to miss some reporting of early activity in a cycle due to late, incorrect, or missing reporting instructions that require calling NYO, waiting for information and disseminating it to the field. ICR error rate, although improved, continues to be a thorn in our side. Although many of the errors are "glitches" in the program and not true errors, it becomes an insurmountable task to train against the glitch. Our call rate for August was 10.6 even though cycling was waived, indicating that personnel were doing their best to complete introductory tasks efficiently. Intercept coupon usage continues to be below objectives due to the nature of introduction duties taking them away from consumers. Only 2 of 62 territories cycled during this cycle, but 88% of the calls were contacted. Retail concentration was on pre-booking Virginia Slims Ultra Lights, presentations on closing row gaps, verifying volumes and selecting accounts for Plan A upgrades, resetting racks and presenting AM contracts.

Management Activity

Area Managers are presenting contracts, Benson & Hedged Lights Box and permanent POS items. Special emphasis is on Electronic Message Center to chain accounts. They are to insure adequate rotation of old packings of Benson & Hedges at direct and non direct wholesale accounts. As a result of recent minor redeployment of management accounts, they are to review account histories and accompany new responsible managers in account contacts for introductions and follow up on pending proposals.

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IV. SECTION ACTIVITIES (cont'd)

Special Programs

August 7 through 9, 1987, at Olive Park, Chicago, Marlboro participated in the **Pan American Festival** which attracted hispanics of all types (South and Central American and the Caribbean) as well as blacks and anglo Americans. Program personnel said 150,000+ people attended the event. Poor weather (rain) kept the crowd down. Five PM Managers and 23 Sales Reps worked a total of 232 hours. We sponsored one of the two main stages where a high degree of visibility was achieved by the placement of two 20' x 23' Marlboro logos placed on each side of the stage and 3' x 10' Marlboro banner placed on the stage canopy. The stage location was not good as it was away from all festival activities. Recommend the stage and booth be in same proximity of each other. Marlboro 3' x 5' banners were placed throughout the grounds. We also received visibility through a booth which was decorated with Marlboro advertising and through our prizes, giveaways and samples that we distributed throughout the festival. An adequate supply of samples and incentives were received with 100% usage. Our sponsorship was also announced on the main stage throughout the event and printed on the festival program. The new sweepstakes with color coded sweepstakes cards was an excellent idea. This new method made it easier to work. However, we recommend that the tickets as well as one of two sweepstakes boards be printed in Spanish. Unlike previous years, this year we did not receive any Marlboro stage banners or posters that advertised the Marlboro sponsorship of the festival. The use of these two items is strongly recommended for future events as this would give Marlboro additional visibility on the stage and throughout our retail accounts. We also recommend tying retail participation into the festival by conducting store sales two weeks prior to the week of the festival. This will let consumers know of our sponsorship as well as generate sales for Marlboro. Store sales could offer consumers a free ticket or two with the purchase of a carton or five pack deal of Marlboro or a free premium (hat, visor, lighter, T-shirt) plus \$1.00 off festival ticket with carton purchase or 5 pack purchase.

We also recommend that sponsorship negotiations be handled at the local level or that New York office personnel come out and personally speak to festival organizers. For the money being spent we can get much more mileage out of the festival in terms of being present/participating in all related festival events to include various banquets throughout the week prior to the festival.

It would be beneficial to use headbands, wristbands, can cooler holders and Marlboro T-shirts with Pan American logo (identifying factor) as incentives for festivals. They are very popular items. Also recommended is the Marlboro advertisement in all festival posters, fliers, tickets and media publications along with all other sponsors. This will generate a great deal of publicity on behalf of Marlboro. This program was well organized and we received very good cooperation from festival members. Future participation is recommended.

Benson & Hedges participated in the **Con Sabor A Mexico Festival**, August 21 through 23, 1987 at Hawthorne Park. Program personnel estimated 125,000+ people attended the event. Two PM Managers and 22 Sales Representatives worked a total of 305 hours. Benson & Hedges sponsored one of the two main

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VI. SECTION ACTIVITIES (cont'd)

stages where a high degree of visibility was achieved by the placement of two 20' x 20' Benson & Hedges logos which were placed at each side of the stage, by one 6' x 22' banner and two 2' x 20' banners which were placed in front and back of the stage, by our 3' x 5' banners which were placed around the festival grounds, our two booths which were decorated with Benson & Hedges advertising and through our prizes, give-aways and samples that were distributed throughout the festival.

Prior to the festival, Benson & Hedges also sponsored a press conference held at Ditka's City Lights to announce details about the Taste of Mexico Festival. Also prior to the festival, local PM personnel distributed throughout the city, Benson & Hedges posters announcing the Taste of Mexico Festival as well as hand delivered V.I.P. invitations to the hispanic Chicago media, Chambers of Commerce and special retail accounts to attend the Con Sabor A Mexico Festival V.I.P. tent. We had good participation, at least 20% of the people that were invited attended the festival.

The idea of a sampling kiosk at the main gate and wheel of fortune in the center of the festival grounds was an excellent one. This eliminated traffic congestion at the sweepstakes booth and limited multiple festival attendees participation. The kiosk could be enlarged allowing for five to six people as opposed to the present two to three people.

Recommendations for future participation include making additional premiums available to include Benson & Hedges headbands, wristbands, can holders, tapes, Benson & Hedges T-shirts with Mexican logo (identifying factor) and having hispanic print on all premiums not just T-shirts.

I also recommend tying retail participation into the festival by implementing advanced marketing programs and store sales. Contacting hispanic accounts two weeks prior to the festival offering buy one get one free, two with lighter, or buy three or five packs, receive \$2.00 off festival admission. This would increase our presence in the marketplace. Store sales with incentives and discounted tickets would do the same.

This event was well organized and we received excellent cooperation from festival members. We recommend future participation.

Marlboro participated in the **Fiesta Aztlan Festival**, August 28 through 30, 1987. This is a black and predominantly hispanic event held at Bessemer Park on Chicago's south side. Program personnel said 20,000+ people attended the event. One Full Time Sampler and 4 Sales Reps worked a total of 58 hours. We paid \$300.00 for a 20' x 20' booth from which we conducted Marlboro sweepstakes and sampling activities. Incentives used were Marlboro T-shirts, hats, visors and scarves. Visibility was achieved by POS in the booth. The quality and quantity of incentives and samples provided was satisfactory.

Prior to the festival a POS blitz was conducted in a three square mile area of the event. We were able to gain a good degree of Marlboro visibility. This event was well organized and we received good cooperation from festival members. We recommend future festival participation.

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VI. SECTION ACTIVITIES (cont'd)

Marlboro participated in the **Puerto Rican Relief Fund Festival**, August 28 through 30, 1987 at Humboldt Park. Our public image was enhanced as funds raised went toward scholarships to help Humboldt Park youths. Program personnel estimated 8,000+ people attended the event. Three PM Sales Representatives worked a total of 42 hours. We paid \$600.00 for a 16' x 16' booth from which we sampled and distributed Marlboro incentives through a sweepstakes. Incentives used were Marlboro T-shirts, caps, visors and scarves. Visibility was provided by a well decorated booth. Incentives and samples were satisfactory. Prior to the festival a POS blitz was conducted in a three square mile area of the event. We achieved a good degree of Marlboro visibility. This event was well organized and we received good cooperation. I recommend future participation.

Sampling

The Benson & Hedges inner-city program was completed on August 28. One hundred percent usage was achieved, but we continue to need a better mix of samples to allow for a greater percentage of menthol samples.

Virginia Slims Ultra Lights samplers have been hired and program materials have been received in a timely manner.

Permanent Point-Of-Sale

The Marlboro multibrand pricer and illuminated pricer are both functional items providing a high degree of visibility. Retail acceptance has been good. Primarily presented in higher volume and/or higher traffic outlets. No hardware was provided for placement. Allocated quantities were satisfactory. I recommend these items for future use as a specialty item.

VII. SALES SERVICES

Materials Distribution

Binders for the new Call Book, ICR/FSR and Call Summary have not been received.

The C.I. Report for Section 43 continues to be late or missing. We have to request a Rapicom almost every month due to missing pages or for the complete report.

VIII. SALES DEVELOPMENT

Sales Tools

The new "Merchandising Contracts" reference card has been very beneficial to field sales personnel. The updated version was timely and it is much appreciated to have current tools to use when a new program begins.

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VIII. SALES DEVELOPMENT (cont'd)

We would appreciate having the capability of receiving multiple "Space Trek" printouts so that Division Managers, Supervisors and Section Manager can also have a copy to monitor progress and established training priorities.

Presentation Materials

Need dimensional brochures for new low profile overhead fixtures.

IX. MEDIA DEVELOPMENT

We have not yet received the volume planners from Act Media for upcoming presentations.

X. ASSOCIATIONS/CONVENTIONS

Nothing new to report.

XI. SSM MISCELLANEOUS COMMENTS

Nothing new to report.

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2043945402

I. MARKETING CONDITIONS

NEW PM BRANDS

Virginia Slims Ultra Lts.

Introduction of this product is going smoothly in all reporting areas at this point. Short lead time for Area Managers caused some problems in securing line numbers from chains and wholesalers. This in turn slowed pre-booking of product in select accounts due to line number shortages. But overall pre-booking was again very successful, maximizing direct account presentations impact with orders in hand. Chain acceptance has been good with only a few holdouts in our smaller rural outlets. We continue to follow-up with these accounts.

Consumer response has been satisfactory, with movement noted on two for ones and carton sales of product. Balance of introductory programs should help to build momentum on packings.

Response from New York has been very good in assisting us in securing additional two for one displays and product to meet our chain commitments for these units.

B&H Lights Box

Management sell-in of this product is nearly completed. Acceptance levels from direct accounts and chains is average, with amount of product ordered initially below average levels. Pre-booking at retail is gaining smaller quantity commitment than in past programs. The reason for this is the amount of load-in programs by all companies during the introductory period. Accounts only have so much money to deal with on these products. Low share of B&H Lts. in large rural areas of the Section are causing lower acceptance levels toward stocking of additional packings.

We continue to follow-up with all accounts on these matters.

Cambridge

All measurement standards continue to show increases on this product. Sales, visibility and consumer acceptance are all increasing steadily, along with wholesale and retail support. Carton sales continue to be the main force behind this momentum when product is couponed at retail. In most areas of the Section, Cambridge is surpassing Doral sales. Latest figures from Minter-Weisman show Cambridge with nearly 2% of their total cigarette category. Doral, in comparison, is capturing 1.3% in this house.

PHILIP MORRIS

Through the month of August, sales in Section 44 are averaging 3.1% ahead of the previous year. Major contributors to this growth are in the Marlboro Lts., Merit Ultra Lts. and Virginia Slims 120's categories. With the programs currently scheduled through year end, this figure

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should continue to improve.

INDUSTRY

Industry activity within the Section shows all companies' business down, except P.M. and a slight increase for RJR. There is continued use of large shipments of two for one product and mass couponing to stir activity currently. Inventory load-in programs are going very well at direct account levels. Larger customers are starting to creep up inventory levels in anticipation of a Federal Tax increase of some level being passed.

LEGISLATIVE ACTIVITY

We are noticing a considerable positive change in the industry confidence level in all trade classes since the recent court ruling on warning labels.

II. MAJOR COMPETITIVE DEVELOPMENTS

AMERICAN

Working Pall Mall Filter Kings & 100's. Instant \$1.00 coupons are attached to cartons at factory (expiration date 5/31/88). Receiving good response from retailers and wholesalers. May have some effect on Marlboro sales, but minimal.

The Division Manager in the Green Bay area can set up special give-away promotions keeping incentives under three dollars each. A free six pack of Coke with purchase of a carton of Carlton was set up in Door County (high tourist area). Coke banners and Carlton posters were displayed. Received good response from consumers and retailers.

The three dollar off coupon on Malibu has maintained movement on the brand. Reps are placing Malibu on carton fixtures with payment being part of the carton rack contract, which means product is displayed and paid for in both locations.

BROWN & WILLIAMSON

Falcon is being maintained at retail, but initial sell-in product is still sitting in accounts. Coupons for dollar off carton and ten cents off pack have not helped in moving brand.

Capri sell-in samples have only been seen at Core-Mark, Milwaukee, and R. A. Berman, Madison. Brand is not being worked at retail in Wisconsin at this time.

Still working Raleigh/Belair two dollar off program, forty unit Richland "2 for 1" displays (payment \$3.00) and forty unit Kool Mild "2 for 1" displays in convenience stores (slow movement).

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LIGGETT & MYERS

Still working two dollar off coupons on all brands with no effect on our sales.

LORILLARD

Discontinuing all packings of True Gold. Reps began picking up product on August 31st. Where removed, other brands have been expanded.

They continue to pay out of category and for more rows than they have to keep their fourth shelf contract.

Coupon promotions include two dollars off, redeemable at checkout, and six dollars by mail on True Blue, True Green, the Old Gold family and Satin.

Two dollar off carton coupons on Newport are prevalent everywhere, but many locations do not keep the brand in distribution ongoing.

Free lighters offered with two pack purchase of either Newport or True.

Lorillard will pay a vending routeman's salary to get a vending ride-with.

R. J. REYNOLDS

Counter displays feature NFL Vikings can coolers with two packs of Winston inside. Can cooler is free with the purchase of the two packs. Display is a normal twenty-four unit size with back-up quantities. Appears to have good movement.

Couponing continues with \$2.00 off coupons on Winston, Salem and Camel displayed mainly on fixtures. If a display is set, RJR will pay up to \$45.00 or 25¢ a carton on ninety carton displays. Print Media is being used for \$2.00 off coupons on Camel. Pack coupons attached to Camel Kings, Regular and Lights, offer 75¢ off on a two pack purchase.

Eighty unit "Two for One" display of Winston Lts. Box, Salem, King & Lts., and Camel Lts., King & 100's, pays \$3.00. Promotion has excellent movement. Sales we lose will pick up again after displays are sold out.

Forty unit "2 for 1's" and \$2.00 off carton coupons on old packings of Salem are being used to make room for the new packing.

Sales Reps continue their priority penetration account contact with eight calls per day. Part-time people place displays and coupon for the Reps to allow them to make presentations.

Kaul Oil, an eight store chain in Milwaukee, was told RJR will pay whatever it takes to place their overhead unit. Seems they will be paying about five hundred dollars to rebuild this account's ceiling.

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Reynolds has supplied the money to build a refreshment stand at the Elkhart Lake Race Track. In return they receive complimentary tickets to all racing events, which will be used for accounts in the area. (Camel is sponsor of track).

Reynolds will continue to sponsor races at the Brainerd International Raceway, but will not have nearly the budget of past years. As usual, the Winston Race that was held a couple of weeks ago wiped out our outside POS in that city.

A new pump topper has changeable advertising for cigarette pricing, as well as a place for store promotions.

A new wall/pole sign looks like a cigarette pack. Retailers are receptive to the new unit and RJR is getting many new placements. It is a nice looking piece and may result in the loss of some of our counter balance placements.

GENERIC

Forsyth Tobacco, a division of RJR, is making "Austin", a named generic brand, for K-Mart. This gives RJR an exclusive on the generic business in K-Mart Stores with Doral and Austin being the only generic priced brands carried by the chain.

Fifty cent off coupons being used on Doral are not effective as other generics have dollar off coupons. Generic consumers go for price.

One dollar off coupons on GPC on carton fixtures and a free lighter on cartons.

III. TRADE CLASSES

WHOLESALE

DISTRIBUTORS

This and other trade classes are expressing the feeling that cigarette manufacturers are bloating the market with new brands/packings in anticipation of an advertising ban. They appear to understand the need, but clearly resent the extra inventories, computer programming, price list revisions and general operational costs associated with proliferation. They also inquire repeatedly about 3M case packings for slower moving brands.

Recent changes in ownership appear to have balanced Minnesota distributors' economic stability somewhat. There are still a few small houses experiencing financial difficulties and I expect some of these struggling accounts to sell out to larger operators, but a greater degree of harmony seems to be in evidence.

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General Tobacco, Grand Forks, North Dakota - Has finished its ownership changes. This account now is totally owned by employees.

Bemidji Candy Company, Bemidji, Minnesota - Sold to Henry's Candy Company of Morris, Minnesota effective September 19th. Henry's rented the Bemidji warehouse, but will not ship or stamp cigarettes on location. They will supply from Morris. Returns will be shipped by Henry's from Bemidji to Morris for better control. This should have a positive effect on our Bemidji Sales Representative. Stock inventories have been a problem for nearly two years due to cash flow problems.

Tony's Candy, Hayward, Wisconsin - Still experiencing cash flow problems. They called for their check for "2 for 1" product as soon as it was available. Rumor is they are building a new warehouse. Current warehouse belongs to previous owner.

H. Derksen & Sons, Oshkosh, Wisconsin - Will move to a larger facility 9/11/87. They will be displaying cigarettes for their cash and carry operation. Cigarettes will be displayed on one of our five foot System 2000 and a RJR Flex.

Click Distributing, LaCrosse, Wisconsin - Appear to be having some financial problems. They have rented out half of their space to an exercise facility.

WHOLESALE GROCERS

Fairway Foods, Minneapolis, Minnesota - Purchased Gordy's Stores in Kimberly and Little Chute, Wisconsin. They will be served by Fairco out of Menominee, Wisconsin.

Nash Finch, Minneapolis, Minnesota - Helped by the contribution of its new wholesale subsidiaries, net earnings advanced 15.7% in the second quarter and 13.8% in the six months ending June 20, 1987. According to H. B. Finch, CEO, the company is encouraged by the results from its new Denver, Colorado distribution center, although non-recurring start-up costs continued to affect operating profits in the second quarter.

Fleming Co., Oklahoma City, Oklahoma - Expects to complete the acquisition of the Godfrey Co., Waukesha, Wisconsin by October, 1987.

SUPERMARKETS

Woodman's, Janesville, Wisconsin - Gained approval of our System 2000 for three stores. RJR could out pay us by \$600.00 a year, but RJR refused to be flexible and our service to the account won over. Implementation will be late September or the first of October.

Two major supermarkets in St. Cloud will be closing primarily due to the new Cub store. St. Cloud is a growth city and I expect new, larger stores to spring up as time passes.

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MASS MERCHANDISERS

Target Stores, Minneapolis, Minnesota - Will begin the opening of the former Gemco locations they purchased a few months ago. Twelve stores in San Francisco and one in Los Angeles will be the initial openings on November 1st.

CONVENIENCE/CONVENIENCE GAS

This trade class continues major growth in retail outlets. Almost all chains in the Section are adding stores at this time. Due to this growth, the competition is heating up for consumer loyalty to chain groups. Along with this comes expansion in product lines and floor space requirements in these stores. These trends are giving us added opportunity to expand our merchandising programs in this trade class.

RETURN GOODS

Although raw numbers show returns down at this time, in actuality this is not accurate. We are experiencing backlogs of Minnesota products at all houses due to the new tax law on reimbursement of state tax on pre-tax increase products.

IV. SSM KEY ACCOUNT CONTACTS

Target Stores, Minneapolis, Minnesota - With SAM Ed Lenocho, contacted Buyer/Merchandiser John Mullaney to coordinate installation of System 2000 fixtures. Target's legal department approved our "Carton Merchandiser Agreement", including the three year Exclusivity Clause. Communication to Store Managers and other PM Sections involved will go forward when we get a firm date of fixture availability from the manufacturer.

SuperAmerica, Bloomington, Minnesota - Contacted Buyer/Merchandiser Brian Humphrey with SAM Ed Lenocho to present System 2000 and a Marlboro banner to advertise 3-pack pricing. Follow-up appointment scheduled with Brian and new Merchandising Supervisor Jim Sullivan on Thursday, 10/1. Expect to get at least one test store immediately for System 2000.

SAM KEY ACCOUNT CONTACTS

Holiday Gas
Minneapolis, Mn.

Lisa Melichar
Buyer/Merchandiser

Tim followed up on Cambridge distribution gaps in this chain. He discussed brand's growth in generic price category and the potential gain in sales if several packings are carried. He presented the Plan B-V and offered the EMC for a test in twenty stores. Will follow-up on both presentations.

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Minter-Weisman Co.
Plymouth, Minnesota

Bob McGuire, Sales Mgr.
Steve Steinleitner
Treasurer

Tim delivered check for "2 for 1" product and reviewed YTD sales figures. Both parties gratified by the 14% increase.

Cub Foods
Stillwater, Minnesota

Dale Monson
Buyer

Tim presented B&H Lts. Box. Account accepted packing and authorized "2 for 1" participation. Dale said a broker has rented "air time" on their EMC for several products. Tim developed a form to measure raw results of the advertised period vs. non-advertised period and forwarded it to Dale for his use. Tim will follow-up for results.

Holiday Village - North Side
Fridley, Minnesota

Bill Metzler, Op. Mgr.
Kris Christ, Dept. Mgr.

Accompanied by Dan Yenglin, Harbor Industries, Tim made an initial System 2000 presentation. Both the Operations Manager and Department Manager are interested in replacing in-line shelving with fixturing. They were shown what was available.

Tom Thumb
Hastings, Minnesota

John Heiling
Buyer

Tim presented Virginia Slims Ultra Lts. Account accepted brand and authorized "2 for 1's" for all stores. Also presented Plan B Prototype Rack. Rack was too tall - must redesign. Tim will follow-up with Paul Bernardo.

Target Stores
Minneapolis, Minnesota

Trish Krowe
Buyer
With Area Manager Cindy

Thompson and Dan Yenglin (T. Parker & Assoc), SAM Ed Lenoach met with Target personnel, Trish Krowe (Buyer), John Mullaney (Asst. Buyer), Merrill Waldron (Store Sets Dept.) and Roger Steven (Divisional HBA Supervisor) to discuss System 2000 dimensions and schematics to be implemented in all Target Stores. Dan saw no problem with Target's request for a reduction of six inches in height and three inches in width. Ed will contact John Mullaney regarding POG's and an implementation schedule.

Pick N Save
Wauwatosa, Wisconsin

George Suel
Buyer

Area Manager Stephanie Richlin accompanied Ed for a basic introduction meeting with account. They obtained information to run a DPP model. George wants an additional three EMC units for placement in late October or November. Pick N Save really likes this sign. Ed will follow up to sign Plan A, set implementation schedule for EMC placement and propose EMC placement for the remaining eleven corporate stores.

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V. MERCHANDISING PROGRAMS

CARTON MERCHANDISING PROGRAMS

Plan A

Positive results continue in this area with penetration, coverage and average rows all improving by about 1% at the 300 plus volume levels. Total Plan A rows increased by 1900 this period. Gains will accelerate later in the year if we get the expected break in new product activity.

Enthusiasm was high at our SPACE TREK meeting until the Objectives Printouts were distributed. We will increase rows significantly, but 56,000 rows (10% of the national objective) will be very difficult. Our biggest concern with the design of the program is the 50% row requirement for Marlboro. On competitive fixtures, particularly those with security shields, this is practically impossible to attain.

Plan A-1

The Section placed 1,113 displays in August. Additional placements this month should bring us to 100% utilization in spite of all the retailer objections to the size of the display. The real problem with 240/300 carton displays is Sales Rep time involved in set-up and trips to the POS warehouse.

Plan AV

Placements increased by eighteen during this reporting period. Expect Kohl's to approve installation of seven wide fixtures in about fifty stores by 10/1.

PACKAGE MERCHANDISING PROGRAMS

M-3 and M-4 placements increased by eleven and thirty-five, respectively, this period. Total B/M displays on location were up by twenty, bringing our penetration to 33.4% vs. all outlets. Add-ons now total 1,431. Fifty-three percent of the displays are being paid as prime.

We currently have 561 more permanent counter displays on location than RJR and more than B&W, Lorillard and L&M combined.

BV's on location increased by forty-six to 1,361. Over 71% of these are self-service. BG's now total 295.

While penetration and positioning of our permanent counter displays continue to improve, we are reaching the limits of what we can do with the current hardware. We need a modular building block system to adapt to various counter configurations. We should reduce inventory depth and expand on facings, basing the payment on the number of modules in the store.

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Plan R

No significant change.

TEMPORARY DISPLAYS

Cambridge 25¢ Off - Had a problem in many accounts that scan product. They couldn't discount price and others didn't know how to handle money up-front. Usage should be about 90%. MIDAS shows 1000 placed in August and DM's report some displays will still be placed in September.

Cambridge "2 for 1" - Program is being worked this month and, as always, no problem selling in "2 for 1's". We should have 100% coverage. The only major problem is the banding of the product at retail. It is very time consuming and expensive.

Virginia Slims Ultra Lts. "2 for 1" - Also being worked this month and as with Cambridge, placement is not a problem and product is banded. Should have 100% usage. Eighty unit displays arrived about a week later than the twenty and forty unit displays.

PHILIP MORRIS FIXTURESCarton Fixtures

Two hundred, eighty-seven stores were using PM carton fixtures as of 9/1. This is an increase of 102 stores YTD and sixty-one stores since 6/1/87.

System 2000 placements have increased to thirty-five, with twenty-seven more scheduled for installation. Pending chains include Rainbow, Pick N Save and Lund's. Our number one priority since acceptance by Target is SuperAmerica.

Package Fixtures

Locations continue to increase, led by OHPM placements (+51 this period). Twenty percent of all outlets now have a PM fixture. OHPM's account for 73% of these locations. We now have 539 second generation fixtures on location in 305 stores.

Our new spinner is "just great". A tremendous improvement over the original. Capacities are greater than the competition, but the space used is less. My only concern at this point is the payment. It is not competitive with R. J. Reynolds and Brown & Williamson's.

VI. SECTION ACTIVITIESRetail Activity and Accomplishments

Retail coverage was acceptable under the circumstances. Only nineteen assignments cycled (90%+) in August, but 91% of all stores and 98% of 32 point calls were contacted. Call rate (10.5) was good considering the tasks to be accomplished.

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Even with this reduced coverage, overall productivity in temporary displays, POS, consumer work and on-carton coupon usage increased slightly.

Management Activity and Accomplishments

Division Manager training time was primarily in support of Plan A and insuring proper implementation of new product programs. Heavy DM/ADM involvement in merchandising and fixture installation ongoing.

Area Managers were involved with Slims, B&H, follow-up on Cambridge Full Flavor and some limited Plan A activity. Area Manager redeployment complicated the sell-in process, but all are now functioning very effectively in their new assignments.

Point of Sale Material

Permanent

We placed 453 permanent pieces during August, but penetration improved only .2% or thirty-nine stores with at least one piece. We will continue to emphasize penetration.

Temporary

Usage improved to 7,522 pieces in July. All pieces were attractive and functional.

All materials provided in appropriate quantities this period.

Virginia Slims Message Board - Good positive feedback from accounts where we could find room for this item. There was one problem with the two sets of numbers/letters received (small black and large red). The large red had only one of each letter and was useless for many messages.

Marlboro Clock - New clock just received has two major problems:

1. Absolutely no light shines through. The thickness of the plastic doesn't appear to be any different than previous years, but it must be a different type.
2. The electric cord is only three feet long. This means we have to buy an extension cord for almost every placement (cord was about the same length last year). We should have six or nine foot cords.

VII. SALES SERVICES

Systems

In a letter dated September 9th, Sales Reps were instructed to check and update store profile data on AV/AG fixtures and Cambridge distribution.

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ICR's were to be submitted by September 18th to make corrections. This letter was received at the Section Office on 9/15. Most Sales Reps did not get it until the 17th. Most Sales Reps and Division Managers working out of their headquarter city didn't even see it until the evening of the 18th. We did the best we could under the circumstances.

Office Administration

The new office is working out beautifully. The additional space and improved traffic flow have contributed to improved productivity, particularly by the administrative staff. Managers are now proud to have customers/associates visit. Most of our furniture has arrived. We are now fully operational. Thanks to Bill Dorr, Marianne Jurasin, etc. for helping make the transition go smoothly.

VIII. SALES DEVELOPMENT

The sell-in materials for our last three introductions have been of excellent quality and enhanced the initial presentations.

The recently received "Merchandising News" looks like a good vehicle for communicating new developments. We are working on a better method of organizing our merchandising contracts and presentation materials. Some assistance in developing binder systems for contracts and sell sheets with more timely updates from New York would be beneficial.

IX. MEDIA

Billboards for Virginia Slims Ultra Lights are very attractive. They are very visible throughout all our metro areas and were well timed with our down-the-street introduction of the product.

X. ASSOCIATIONS & CONVENTIONS

We have finalized details for our participation in the Minnesota Grocers Association, Wisconsin Grocers Association and Roundy's, Inc. shows in the coming month. We will display System 2000, EMC and Low Profile Spinner fixtures at each of these.

XII. MISCELLANEOUS

Nothing to report.

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